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CHARLES ELMORE CROPLEY

IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1946.

Nos. 70 and 71

EDWARD KATZINGER COMPANY,
Petitioner,

vs.

CHICAGO METALLIC MANUFACTURING COMPANY,
Respondent.

Respondent's Brief.

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RESPONDENT'S BRIEF.

I.

Introductory.

As we appraise the situation herein the Petition for the allowance of the Writ of Certiorari was granted because of an alleged conflict in the interpretation of *Sola* v. *Jefferson* (317 U. S. 173) as between *MacGregor* v. *Westinghouse* (350 Pa. 333, 38 Atlantic 244) and the decisions here-

in by the Circuit Court of Appeals for the Seventh Circuit (*Katzinger* v. *Metallic,* 139 F. (2nd) 291 and 153 F. (2nd) 149.

The final decision in the instant case (a license contract case) does not depend upon the doctrine of *Sola* v. *Jefferson* at all. It can be and, as we understand it, was based *solely* upon the question of infringement, having no connection whatsoever with the presence or absence of a price-fixing clause in the license contract. (See Findings of Fact, Conclusions of Law, and Decree, pp. 14 to 17, R. 71, in particular paragraph (4) of the decree reading: "Defendant's charges of infringement of patent #2,077,757 under its counterclaim directed against Plaintiff's Bake-King tinware, are hereby dismissed for want of equity."

No error is assigned as to the ruling of non-infringement, so that this case must be affirmed regardless of what this Court may hold with respect to the effect of a price-fixing clause in a license contract.

The Court of Appeals in its first decision (139 F. (2nd) 291) held the *Sola* case to be applicable, and this was in view of the fact that established prices were scrupulously maintained insofar as infringing product was concerned (p. 22, line 1, R. 70). In the *MacGregor* case prices admittedly were not maintained, and that seems to be the main distinguishing feature between the two cases. The two Courts did not have the *same* question before them.

In this case there were two trials and two appeals to the Circuit Court of Appeals (the beforementioned earlier one at 139 F. (2nd) and the later one affirming the decree of non-infringement for want of equity at 153 F. (2nd) 149.* At the earlier appeal the Circuit Court of Appeals

*We are disregarding as immaterial here an initial appeal in which jurisdiction was the sole issue. No error is assigned on that point.

relied upon the *Sola* case (properly as we will show), and remanded the case; but the *final* decree entered after the second trial is neither based on that ruling nor has any relationship thereto. The case turns on another provision of the contract.

II.

STATEMENT OF THE CASE.

We believe the following to be the correct statement of the case.

Some time in 1936 Katzinger brought on the market a type of home baking pans made of *embossed* instead of *smooth* sheets of tinware under the name "Ovenex." Embossed sheets of tinware (Metallic's physical Exhibits 15 and 16) from which such pans could be stamped, had, long prior thereto, been on the open market (p. 35, line 16, R. 70).

Shortly thereafter Metallic placed similar baking pans on the market under the name "Bake Rex."

Thereafter, April 20, 1937, the Jackson patent in suit, No. 2,077,757, issued to Katzinger.

Katzinger promptly (April 22) notified Metallic of infringement and as a result Metallic and the National Enameling and Stamping Company were, on October 1, 1937, licensed at a five per cent royalty, the contract (pp. 15 and 16, R. 70) containing among others the following provisions:

> "11. Licensor reserves the right to establish a minimum sales price for the articles or products which Licensee is licensed to manufacture hereunder and to modify or change such minimum prices from time to time during the life of this agreement. The Licensor, as well as Licensee and any other person, persons or

corporation licensed by Licensor, shall not, with the consent of Licensor, sell or offer for sale, or otherwise dispose of any of the licensed devices or products below said minimum sales price, or on more favorable terms of sale than those set forth in any such scale of prices so established by Licensor. Contemporaneously with the execution and delivery of this license agreement, Licensee has received from Licensor a schedule of minimum prices, effective as of the date hereof, below which none of the products or devices made under this license shall be sold. Licensor reserves the right, upon thirty (30) days' notice in writing given by Licensor to Licensee, to change said minimum prices from time to time during the life hereof. On such articles or devices made and sold by Licensee as to which Licensor shall have failed or neglected to establish a minimum sales price, the royalty shall likewise be computed on the net sales price received by Licensee from its customers. Licensee or its duly authorized representatives shall have access from time to time to the books of account of Licensor during ordinary business hours for the purpose of determining whether or not Licensor has complied with the provisions of this paragraph."

"14. This contract shall remain in force for and during the life of the last expiring patent coming within the terms of this license unless sooner terminated by either party upon sixty days' written notice to the other party, provided, however, that Licensee may avail itself of this right to terminate only upon ceasing to manufacture, sell or distribute articles embodying or made in accordance with any of the licensed patents or applications, except as provided in paragraph 9 hereof. Should Licensee elect to terminate, as aforesaid, except as provided in paragraph 9 hereof, without ceasing to manufacture, sell or distribute said article, it shall be estopped from denying the validity of said patent or patents, or any of them, and be deemed an infringer thereof."

In pursuance of this license agreement Metallic did, for a period of two years more or less, exercise the license by making certain tinware products and *selling same at the prescribed minimum prices*, and *paying therefor the applicable royalties* (line 6, p. 22, R. 70).

Early in 1939 Metallic placed another type of embossed home baking pans on the market under the name "Bake-King" which Metallic contended were not an infringement of the said Jackson patent. No royalties were ever paid on said Bake-King line (XQ 99 and A, p. 66, R. 70).

The Bake Rex line was discontinued in June 1939 (R. 70, p. 70, last line), and sales ceased some time in 1940 (p. 9, R. 71).

The refusal by Metallic to pay royalty on the later Bake-King line resulted in a suit by Katzinger in the State Court at Chicago to enforce such payment.

Later, on February 20, 1941, Metallic canceled the license contract and on February 21, 1941 filed the instant suit in the Federal District Court in Chicago for declaratory judgment to have the Jackson patent declared invalid and its Bake-King line held as not an infringement thereof.

There were two trials. On the first trial the District Court held Metallic estopped by the contract to contest validity. The Circuit Court of Appeals for the Seventh Circuit reversed on authority of the *Sola* case (139 F. (2nd) 291), and remanded the cause for the trial of the issues of validity and infringement (line 23, p. 208, and line 1, p. 211, R. 70). The words "and the cause remanded" do not appear on R. p. 211, but they do appear at the end of the second column, p. 293 of 139 F. (2nd).

At the second trial a new and controlling prior art patent, the patent to Palmer, No. 319,306, June 2, 1885, was

added to the record (Par. II, p. 22, R. 71). It had been submitted to the Court of Appeals at the first appeal, but that Court wanted it introduced at the second trial before the District Court. Katzinger failed to include this patent in the appeal record to the Circuit Court of Appeals on the second appeal but it was added by supplemental proceedings (Par. II, p. 22, R. 71) and prominently relied on by the Appellate Court (R. 71, p. 35). This same controlling patent is omitted in the record before this Court, and its omission was called to Katzinger's attention in Metallic's Reply to Petition for Certiorari.

Strictly speaking it does not need to be before this Court as there are no assignments of error re invalidity and non-infringement.

At this second trial the District Court in its Final Decree found the patent invalid and *not infringed* (pars. 3 and 4, p. 16, R. 71), despite a contrary ruling as to infringement requested by Katzinger in *its* proposed decree (proposed Final Decree, p. 13, R. 71).

The District Court went even further by including in its Final Decree of September 27, 1944 the following provisions:

> "(1) The decree of April 24, 1943, *together with the Findings of Fact* and Conclusions of Law entered as of that date, *are hereby vacated*, and the injunction is dissolved." (Emphasis ours.)

It is important to note this revocation of previous findings since Katzinger is here asserting, as matters of fact, a number of points which do not seem to take account of that situation.

A definite finding on the matter of infringement was necessitated under paragraph 14, and by the claim of Katzinger under its counterclaim that Metallic account for the

sale of the later Bake-King ware *prior to cancellation*. It was a real issue, neither meaningless nor surplusage.

The District Court in its findings of fact (p. 15, R. 71) clearly differentiated the later Bake-King line from the patent because of the irregularity of design, thus furnishing the basis upon which the decree adjudicates infringement.

This decree was affirmed by the Circuit Court of Appeals at 153 F. (2nd) 149 (p. 31, R. 71).

The Court, in affirming, definitely limited the scope of the *claims* of the patent (p. 34, R. 71) in a manner to require the structure which the District Court said (in different language) was not present in the Bake-King line (p. 34, line 24, R. 71). Exhibit 18, illustrative of the Bake-King ware, shows the lack of *continuous* deviations needed in order to be held an infringement.

Both opinions by the Circuit Court of Appeals are here challenged, but we see no point in challenging the second opinion as no error is assigned relative to the factors on which it is based, namely, infringement and validity.

The controlling and only point which is of importance here is the question of infringement; it has been decided adversely to Katzinger, and since Katzinger does not assign error as to that point (p. 10, Pet. for Writ of Cert. and p. 10, Petitioner's Brief), the questions of law presented in the Assignments of Error are moot insofar as this case is concerned. To reach those questions in the instant case this Court would first have to rule adversely to the District Court and the Circuit Court of Appeals on the question of infringement. License contract provision 14 above set out forecloses any other conclusion.

III.

ARGUMENT.

(a) The Later Decision of the Circuit Court of Appeals Is Sound.

It seems to us that a reading of paragraph 14 of the license, set out in full heretofore, coupled with the finding of non-infringement, demonstrates the futility of Katzinger's claim for a reversal of the decree in this cause. Even if the price-fixing paragraph 11 had never been a part of the contract, paragraph 14 gives Metallic the right to cancel the license "upon ceasing to manufacture, sell or distribute articles embodying or made in accordance with any of the licensed patents or applications," in other words, upon ceasing to infringe.

As the making of Metallic's earlier Bake Rex ware had been discontinued before cancellation and the royalties fully paid, and as Metallic's later Bake-King line (the only one here in issue) has been held not to infringe, Metallic obviously was justified in bringing this declaratory judgment suit to free itself of the claims for royalty payment demanded by Katzinger in the State Court suit above referred to, and which was grounded on the claim of infringement.

The parties being rightfully in Federal Court on the question of infringement, it was the duty of the Court also to adjudicate the question of validity, as that is a public matter and not merely a private question as between the parties. Metallic had a perfect right and also

a duty to attack validity (*Sinclair* v. *Interchemical*, 325 U. S. 327). Katzinger admitted at the first trial before the District Court (last few lines, p. 29, R. 70), that the contract stood canceled as of the day of Metallic's notice, thus bringing into play paragraph 14.

Metallic is laboring under no estoppel because of paragraph 14 to contest validity, since its product has been held not to infringe, and Metallic does not *and did not need to rely on the price-fixing paragraph 11 for a judgment in its favor.* Katzinger, at the first trial in the District Court, erroneously urged enlarged scope for the estoppel. At that time (1st par., p. 45, R. 70) Katzinger by his counsel said: "So in this case we admit the license is terminated but under Clause 14 they are *estopped to dispute* both validity and *infringement.*" (Emphasis ours.) A most unheard-of doctrine. Metallic at that time urged the invalidity of any estoppel because (a) of the price-fixing provision (par. 11), and (b) by virtue of non-infringement (par. 14).

The Court of Appeals at the first appeal reversed the District Court because of price-fixing paragraph 11, but would not discuss cancellation paragraph 14, as it said that an adjudication of infringement was premature. (l. 23, p. 208, R. 70.) The Court evidently wished the District Court, in view of the presence of the added Palmer patent, to decide the questions of validity and infringement. It is this reliance by the Court of Appeals on the *Sola* case at the *first* appeal which seems to have made this cause of interest to this Court.

The later finding of non-infringement having, so far as the parties to this cause are concerned, rendered the question of the propriety of the decision on the first appeal

moot, it is of no moment to the parties to this cause whether this Honorable Court agrees or disagrees with the propriety of the reliance by the Court of Appeals on price-fixing paragraph 11 at the first appeal. We will show presently why the Court of Appeals on the first appeal *properly* relied on paragraph 11.

On the second appeal the Court of Appeals concerned itself not only with the question of validity, but also construed the claims. Questions of validity and infringement not being before this Court, we do not further burden the Court with additional discussion relative to the propriety of the rulings of the lower Courts on these points.

As Metallic obviously had, under any interpretation of paragraph 14 of the contract, the right to show non-infringement to free itself of Katzinger's royalty claims, and, being successful on that score, had the right to cancel the contract and show invalidity of the patent, the decree of the lower Court must be sustained.

It is quite true that the Circuit Court of Appeals on the first appeal could have decided the case on the basis of provision 14 without reference to paragraph 11, but the offered new evidence undoubtedly prompted the Court first to place that evidence before the District Court.

Aside from the propriety of reliance on the *Sola* case at the first appeal, we can find no other factors which in our opinion have any bearing on this case, insofar as the final decree adjudicates the rights of the parties, but since various and sundry points have been brought up and emphasized by Katzinger, we feel it incumbent upon us to discuss them.

(b) The Circuit Court of Appeals Was Right in Relying Upon Sola v. Jefferson on the First Appeal.

On the first appeal the Appellate Court (R. 70, p. 207) held that the presence of price-fixing paragraph 11 abrogated the estoppel to contest validity, cancellation or no cancellation, as the provisions were not separable. The Court also held that the construction placed by the District Court on certain facts was wrong. We show later on that the fact assumptions by the District Court at the first trial are largely in error.

Katzinger complains that the Appellate Court went beyond the *Sola* case in that the price fixing provision 11 had been wiped out by cancellation of the contract simultaneously with the operation of provision 14, so that provision 14 stands uncontaminated by cancelled provision 11, even though they are part and parcel of the same contract. Since non-separable provision 14 still remains in force, we see no escape from the conclusion that it remains tied to price-fixing provision 11.

The contract was not separable, as all of its provisions were part of one complete indivisible whole. If it is against public policy to foreclose inquiry into the validity of a patent which is the subject of a license contract *during* the time that such license is in force, all the more so is it against public policy to foreclose such inquiry during a *post-license* period.

As we have said heretofore, the question of whether the Court on that first appeal was right or wrong, can have no effect on the rights of the parties in the instant suit because the question of infringement has since then been decided adversely to Katzinger, and no error is assigned on that point. There being no infringement, no estoppel

applies under paragraph 14. Metallic being rightfully in Court on the question of infringement, could also contest validity.

In order to distinguish from the *Sola* case Katzinger makes certain statements in its brief which we cannot reconcile with the actual facts.

The statement (par. 6, p. 13 of the brief) that the transactions *might* have been intrastate loses its value as both parties operated throughout all of the 48 states (p. 73, R. 70).

The statement (par. 3, p. 12 of brief) that the price-fixing agreement had been terminated before any action was brought by either party must be read in the light of the fact that the State Court suit was brought *before* cancellation, and that cancellation took place just one day before the instant suit was brought.

The statement (par. 4, p. 12 of brief) that the Courts below found that the price-fixing agreement was not enforced is not in line with the evidence (line 6, p. 22, R. 70), as it was stipulated that the prices were fully maintained throughout. However, it was only the *original* ruling by the District Court which so held; the Appellate Court did not follow suit. But the further statement (par. 1, p. 12 of the brief) that Katzinger did not seek enforcement of the price-fixing provision may well be true since full compliance made the need for enforcement unnecessary.

We fail to find real substantiation in the record that Metallic asked for the license. Schrager (p. 53, R. 70) says it did, and Cohn says it did not (Q. 6, p. 72, R. 70). Since both parties agreed to the contract we can see no reason why it makes any difference. The license terms

were in reality arranged between Katzinger and National Enameling and Stamping Co. (pp. 54 and 62, R. 70). Metallic merely said that it would be satisfied with whatever National accepted. The only thing which Metallic seems to have wanted was a differential in price between the smooth and the embossed tinware (p. 70, R. 70), no doubt because of a differential in the cost. Metallic did not like a price fixing agreement (p. 73, R. 70).

The statement (last par. p. 11 of brief) that Metallic "made a palpable attempt at evasion of infringement" is hardly apt in view of the final decree finding non-infringement and the findings and opinions leading up to it.

That it was Katzinger's plan to so tie up Metallic by the Agreement that Metallic could *never* make any other than *smooth* pans, infringement or no infringement, is clear from Mr. Schrager's testimony (p. 67, R. 70).

We can see no justification for the statement (line 20, p. 6 of brief) that the Bake-King line "did in fact infringe"; the decree is to the contrary.

It is quite true that the District Court at the first trial held the doctrine of the *Sola* case inapplicable (brief, p. 8) but that ruling was not only reversed by the Appellate Court, but, as is apparent from the above, the assumptions of fact by the District Court are and were held to be in error and not warranted.

The generalities indulged in by Katzinger in its brief thus find no basis in the record.

Katzinger however does make certain contentions in an attempt to distinguish the instant case from *Sola* v. *Jefferson*, and *MacGregor* v. *Westinghouse Electric*, 350 Pa. 333, 38 Atl. 244 (brief p. 12, line 4).

Just why Katzinger *now* says he wishes to *distinguish* from the *MacGregor* case seems odd when considered in the light of the Petition for the Writ of Certiorari where Katzinger, after quoting at length from that decision, says (p. 13): "The present case is precisely within that decision." As we set forth in our Reply to the Petition, petitioner (Katzinger) did not accurately set forth the facts in the Petition. As merely one of the misstatements we call attention to the assertion (par. 1, p. 11 of Petition): "Metallic did terminate the license without ceasing to manufacture the patented article." This despite the decree which found non-infringement and as to which no error is assigned. Nor is it strictly correct to say that this case is "precisely within that decision", as the Court in the *MacGregor* case seems to have placed much reliance on the *absence of price maintenance.* In the instant case prices *were* maintained.

As to these contentions by Katzinger:

Since the *Sola* case favors rather the licensee than the licensor, we see no reason to distinguish (brief, p. 12) because the licensee brings the action instead of the licensor. As there was full compliance by licensee on price maintenance, there was no reason for licensor to attempt enforcement. Relief in the *Sola* case was also granted to licensee.

We finding nothing in the record to justify Katzinger's claim that the equities are with it. The passages in the record relating to the pre-license negotiations are the following:

Q. 33, p. 54, R. 998 through answer to Q. 40,
Q. 48, p. 57, R. 998 through answer to Q. 51,
Q. 71, p. 63, R, 998 through answer to Q. 73,

XQ. 88, p. 65, R. 998 through answer to Q. 93,
XQ. 102, p. 66, R. 998 through answer to Q. 107,
Q. 4, p. 71, R. 998 through answer to Q. 9,
Q. 14, p. 72, R. 998.

Apropos of the simultaneous cancellation of provision 11, and operation of provision 14, may we add that it is clear from the statements by Mr. Schrager (R. 70, pp. 54 and 67) that *he* insisted on provision 14 in order to prevent Metallic from ever being relieved of the provisions of the contract unless they went back to smooth tinware even though another type of embossed tinware which they might use did not infringe the Jackson patent.

While the contract as drawn does not tie Metallic in that manner, the intent underlying provision 14 is anything but salutary. If the provision had meant what Mr. Schrager thought it meant, it would certainly be an unwarranted extension of the Jackson patent beyond its terms. Even then Katzinger would still have to rely on provision 14 of a contract having a price restriction. Although, as before stated, the question of divisibility insofar as the instant suit is concerned is a moot question, yet, on authority of Williston on Contracts, Art. 863, we respectfully submit that the contract is not divisible or severable.

Katzinger argues (brief, p. 13) that a price fixing provision in a contract is not *per se* illegal if the patent is valid. Quite so, under certain conditions.

We can find no justification for the statement (Brief, p. 14) that "The decision of the Seventh Circuit Court of Appeals in effect holds that any price fixing agreement is evil *per se* and so affects any contract as to render it invalid * * *." The first sentence of the opinion answers

such charge (p. 207, R. 70). The Court was concerned with estoppel, and not *contract invalidity.*

The Circuit Court of Appeals did not hold the *contract* invalid *per se,* but, eliminating the estoppel, remanded to test validity and infringement in the light of the new evidence,—which had been called to the attention of the Appellate Court at the first appeal, without being officially a part of the record.

We feel that the Appellate Court was justified in remanding the case before deciding the question of infringement, because infringement naturally depends upon the *scope* of the *claims* in the light of prior art, a matter in the first instance for the Trial Court. As such claims were construed by these Courts, infringement is negatived at a glance.

(c) Dissimilarity Between the Instant Case and the MacGregor Case.

In the *MacGregor* case *price restrictions were neither maintained nor enforced.* In the instant case they *were maintained.*

As a decision of the instant case on its merits does not depend upon the outcome in the *MacGregor* case we feel that we need not further discuss it.

The decisions by the Circuit Court of Appeals are sound and should be affirmed.

Respectfully submitted,

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